



Lichfield
District Council

Capital strategy

2024/2025

2. The Capital Programme

2.1. The financial planning process and its Governance is shown below:

The Financial Planning Timetable and Governance Responsibility			
Service and Financial Planning		July	← Medium Term Financial Strategy
		August	
	→	September	← Money Matters as at 30 June
Review Medium Term Financial Strategy	→		
		October	← Medium Term Financial Strategy
Review Medium Term Financial Strategy	→	November	
Mid Year Treasury Management Report	→		
		December	← Money Matters as at 30 September
			← Medium Term Financial Strategy
			← Set Council Taxbase and approve Collection Fund Projections
Review Medium Term Financial Strategy	→	January	
Review Treasury Management and Capital Strategies	→	February	← Money Matters as at 30 November
Approve the Medium Term Financial Strategy and set the Council Tax	→		← Recommend Medium Term Financial Strategy and Council Tax to Council
		March	
		April	
Draft Statement of Accounts	→	May	
		June	← Money Matters as at 31 March
Annual Treasury Management Report	→	July	
		August	
Statement of Accounts (was 31 July but for 2 years extended to 30 September)	→	September	
Key:			
Pink = internal timelines			
Blue = Cabinet			
Salmon = Cabinet & Overview and Scrutiny Committee			
Amber = Overview and Scrutiny Committee			
Green = Audit & Member Standards Committee			
Purple = Council			

The Capital Programme Process

- 2.2. Given our current financial position, our priorities and responsibilities and as Asset Management Plans are developed, it is probable that capital needs will be identified that exceed resources available thus necessitating a more transparent and robust process to inform Members during the development of the MTFs.
- 2.3. The capital bid process has been incorporated into the service and financial planning process to provide a holistic approach. The capital bid element of the process has been designed to ensure consistency, objectivity, equity and transparency to the prioritisation and allocation of capital funding, while ensuring maximum value for money.
- 2.4. A summary of the process is identified below:
- Indicative Business-as-Usual capital investment is included in the Long Term Capital Investment Plan based on existing levels. These budgets are subject to review based on more up to date service and financial plans.
 - In addition, a service can identify a budget requirement and consults with the Finance and Commissioning Team.
 - Service requests funding by completing and submitting a funding bid form.
 - The Finance and Commissioning Team reviews all bids and assessments and requests clarification where required.
 - The Finance and Commissioning Team reviews bids using the assessment criteria and ensure the bids are included in the relevant service and financial planning submission.
 - Leadership Team review all service and financial planning submissions before recommending the allocation of funding either through a Cabinet Report or through the MTFs.
 - Finance and Commissioning monitor funding allocations and spend, reporting to Leadership Team as part of Money Matters Reports.
 - Where the project budget or annual allocation is **£500,000 or more**, a review of performance is not already separately monitored, and the service completes the work / project outlined within the bid, the service will undertake a review (i.e., post-project review) within 6 months of work being completed, providing this to Finance and Commissioning to include in a report to Leadership Team.

Planning Obligations - Section 106 and Community Infrastructure Levy (CIL)

- 2.5. As part of the planning process, financial contributions from planning obligations, including the Community Infrastructure Levy, are received from new developments. The vast majority is spent directly on infrastructure works or will be spent in line with the Infrastructure Delivery Plan (IDP).
- 2.6. In some cases, there is an element of discretion on how they are allocated. These contributions towards social and community facilities are linked to the development proposed.
- 2.7. The Council's Capital Programme includes a number of projects that are to be funded by Section 106 and CIL; this is a significant source of funding and there is a significant level of interest from the community in relation to the allocation of sums to projects.

2.8. The Capital Programme and its funding by Strategic Priority is summarised below:

Strategic Priority	Capital Programme						Corporate £000
	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	Total £000	
Enabling People	4,421	10,537	3,172	1,320	1,100	20,550	819
Shaping Place	386	425	6,600	210	400	8,021	240
Developing Prosperity	5,493	4,649	3,999	10	0	14,151	2,456
A Good Council	520	215	365	405	405	1,910	1,405
Capital Expenditure	10,820	15,826	14,136	1,945	1,905	44,632	4,920

Funding Source	Capital Programme					
	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	Total £000
Capital Receipts	2,033	1,110	174	222	0	3,539
Capital Receipts - Housing	360	0	0	0	0	360
Revenue - Corporate	173	100	565	183	0	1,021
Corporate Council Funding	2,566	1,210	739	405	0	4,920
Grant	1,695	2,884	3,762	1,300	1,100	10,741
Section 106	537	993	0	0	0	1,530
CIL	1,350	800	0	0	0	2,150
Reserves	4,509	6,610	1,169	90	655	13,033
Revenue - Existing Budgets	163	150	150	150	150	763
Leases	0	0	6,000	0	0	6,000
Internal Borrowing	0	3,179	2,316	0	0	5,495
Total	10,820	15,826	14,136	1,945	1,905	44,632
External Borrowing	0	0	0	0	0	0
Grand Total	10,820	15,826	14,136	1,945	1,905	44,632

2.9. The Revenue implications of the Capital Programme are shown below:

Revenue Implications	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000
Interest on Loan to the LA Company	0	0	0	0	0
Friary Grange - Refurbishment	135	135	0	0	0
New Leisure Centre Capital Financing	0	0	373	366	359
New Leisure Centre Operating Costs	0	0	235	(11)	(85)
New Leisure Centre Sinking Fund	0	0	0	50	100
Savings Reinvested	(100)	(100)	(100)	(100)	(100)
Community Infrastructure Levy 2022	(11)	(173)	(100)	(100)	(100)
Leisure Centre & CIL Uncertainty	111	273	0	0	0
Cinema - Income	0	0	(600)	(600)	(600)
Cinema - Sinking Fund	0	0	254	254	254
Cinema - Expenditure/Uncertainty	0	0	346	346	346
Revenue Budget - Bin Replacement	150	150	150	150	0
Revenue Budget - Corporate	173	100	565	183	0
Sub Total - Approved Budget	458	385	1,123	538	175
Revenue Budget - Corporate	0	0	0	0	0
Revenue Budget - Reserves	0	0	0	0	612
Revenue Budget - Bin Replacement	0	0	0	0	150
Sub Total - Service and Financial Planning	0	0	0	0	762
Capital Programme Total	458	385	1,123	538	937

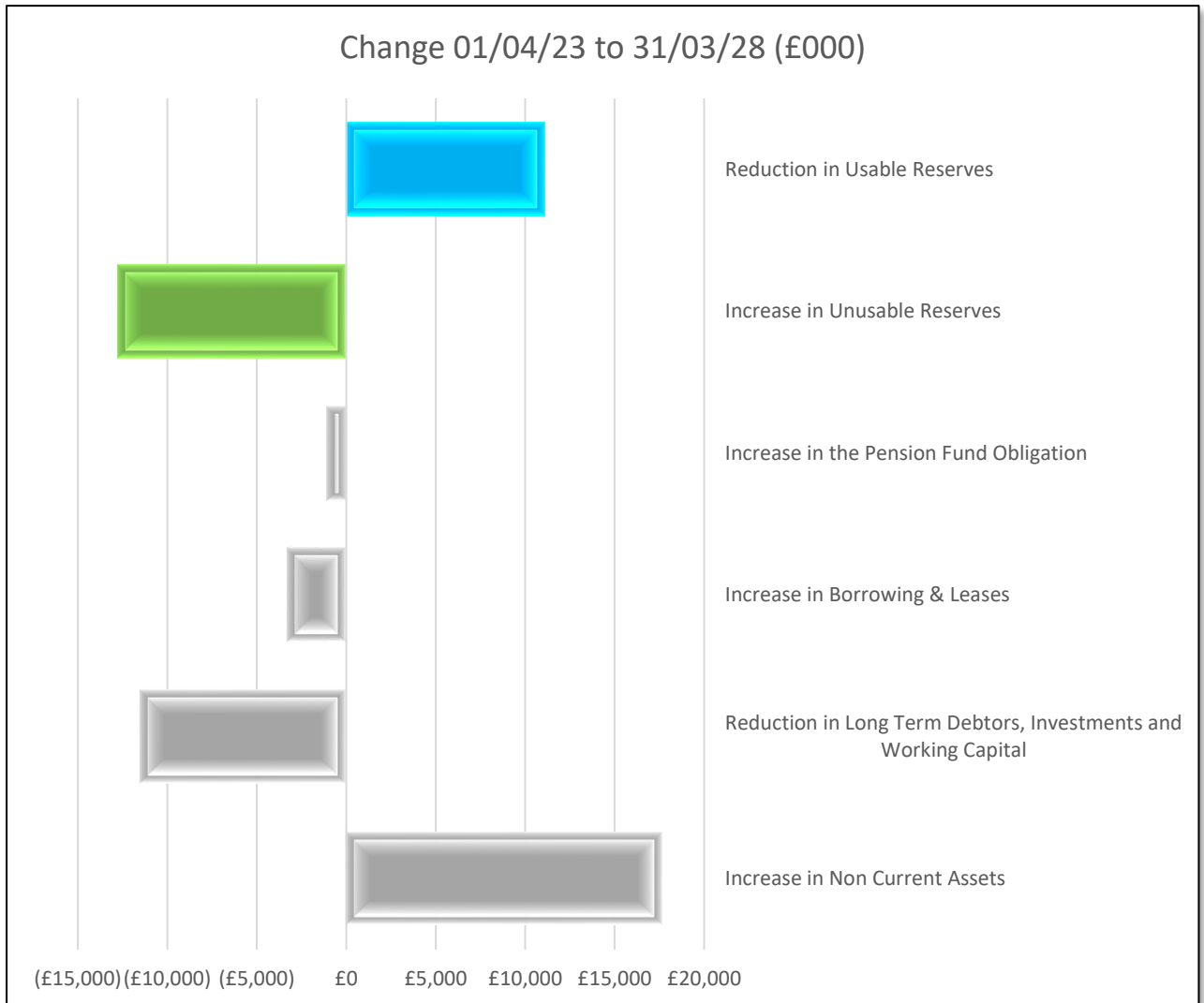
2.10. Projected Capital Receipts are shown in the table below:

General Capital Receipts	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	Total £000
Opening Balance	(1,076)	(1,466)	(387)	(244)	(55)	(1,076)
Sale of Venture House	(915)					(915)
Other Receipts	(30)	(31)	(31)	(33)	(28)	(153)
Bakers Lane	(1,478)					(1,478)
Utilised in Year	2,033	1,110	174	222	0	3,539
Closing Balance	(1,466)	(387)	(244)	(55)	(83)	(83)

Housing Receipts	2023/24 £000	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	Total £000
Opening Balance	(1,181)	(979)	(979)	(979)	(979)	(1,181)
Right to Buy Receipts	(158)					(158)
Utilised in Year	360	0	0	0	0	360
Closing Balance	(979)	(979)	(979)	(979)	(979)	(979)

3. The Balance Sheet (in £000s)

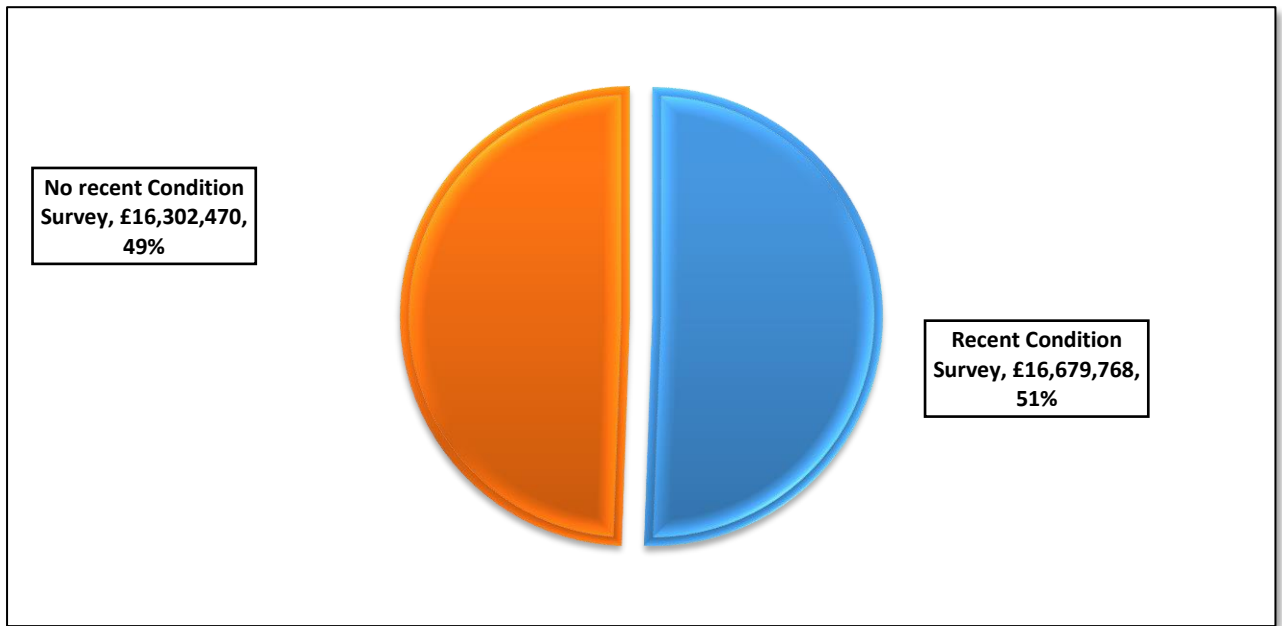
3.1. The Revenue Budget, Capital Programme and its funding will impact on the Council’s Balance Sheet:



3.2. This chart illustrates the impact on the Council’s Balance Sheet of capital investment in the new leisure centre, Cinema for Lichfield District, and a replacement waste fleet with funding from a lease type arrangement and internal borrowing/usable reserves leading to a reduction in investments.

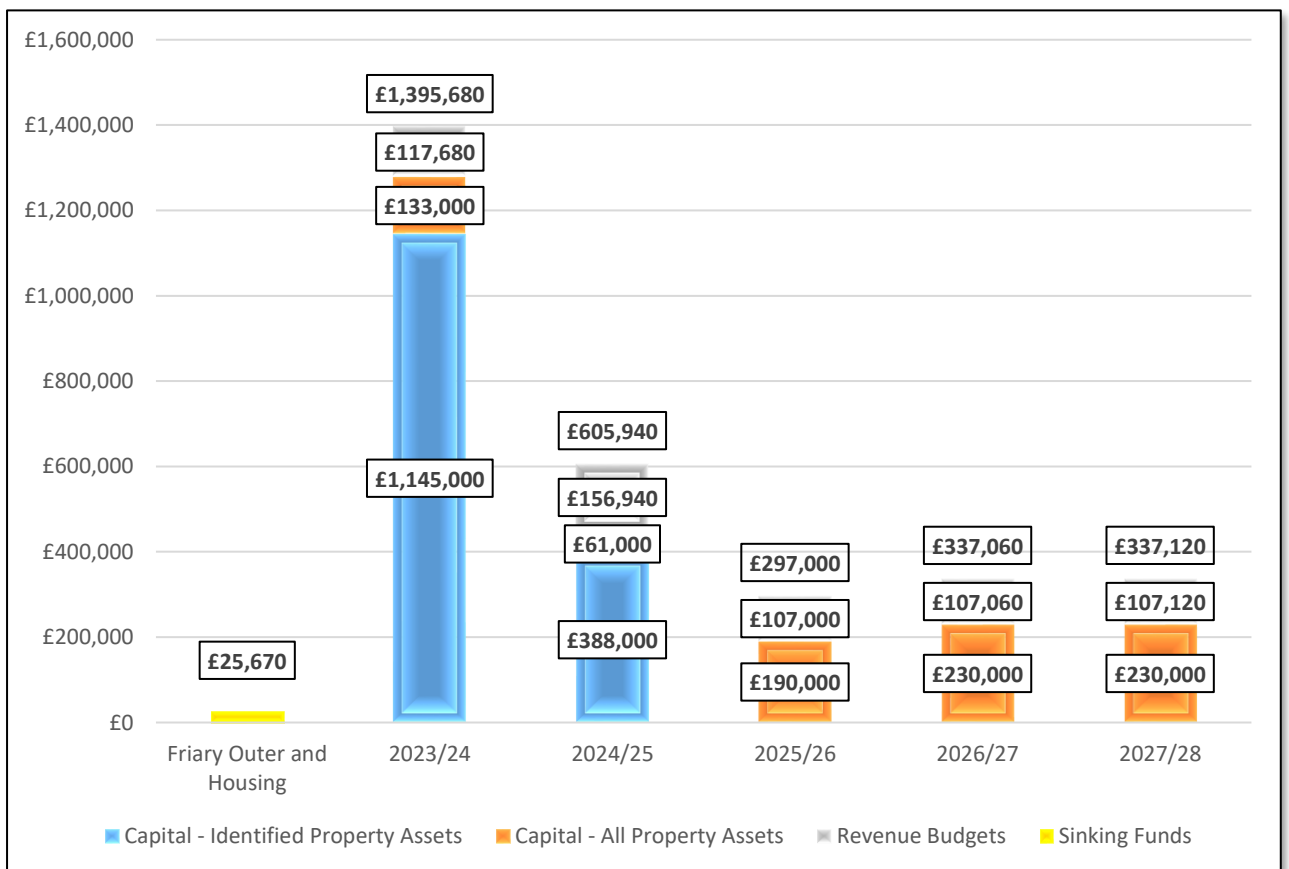
4. Asset Management Planning

4.1. The Property Team is currently in the process of undertaking Property Condition Surveys for Property Assets owned by the Council. Progress to date is shown below:

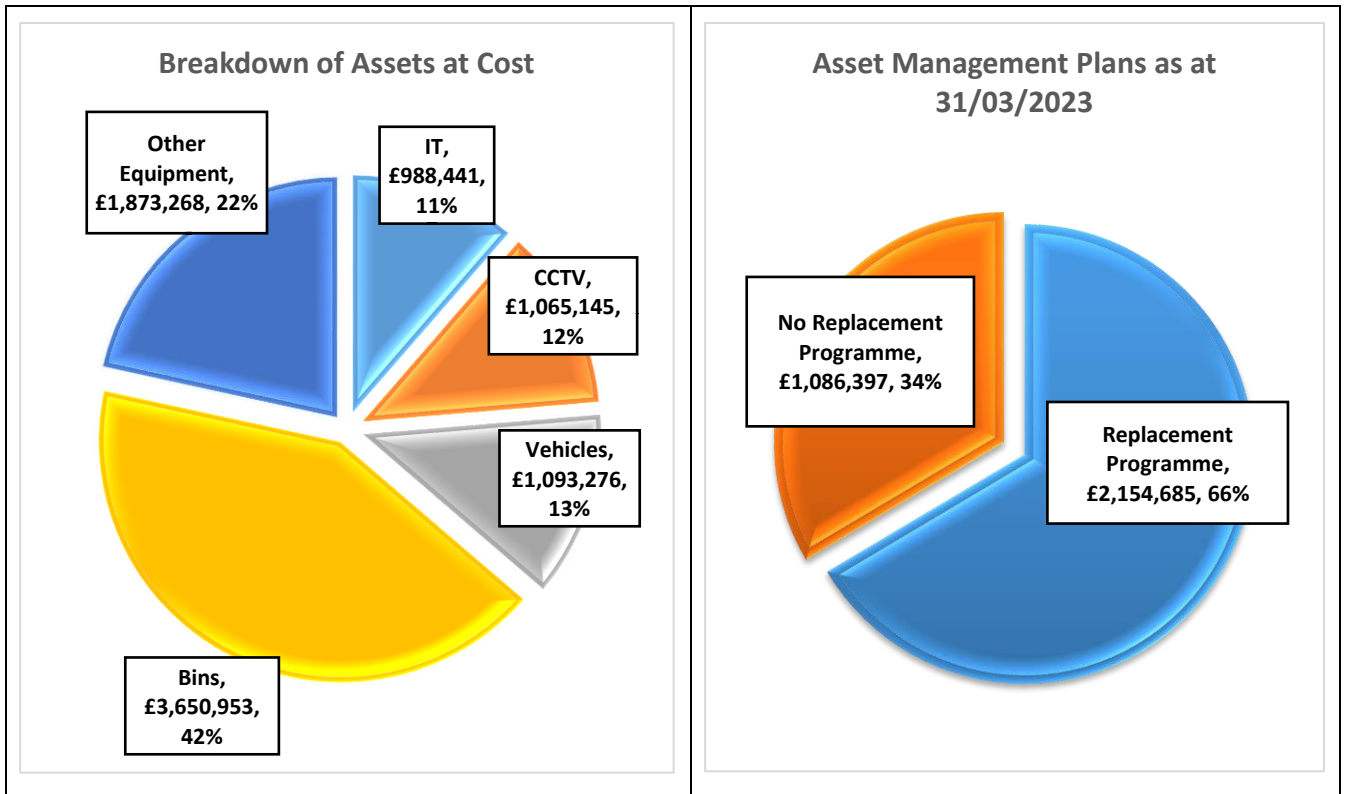


4.2. For financial planning purposes, a budget (based on a % of projected asset value) has been included in the Capital Programme and Longer Term Capital Investment Plan.

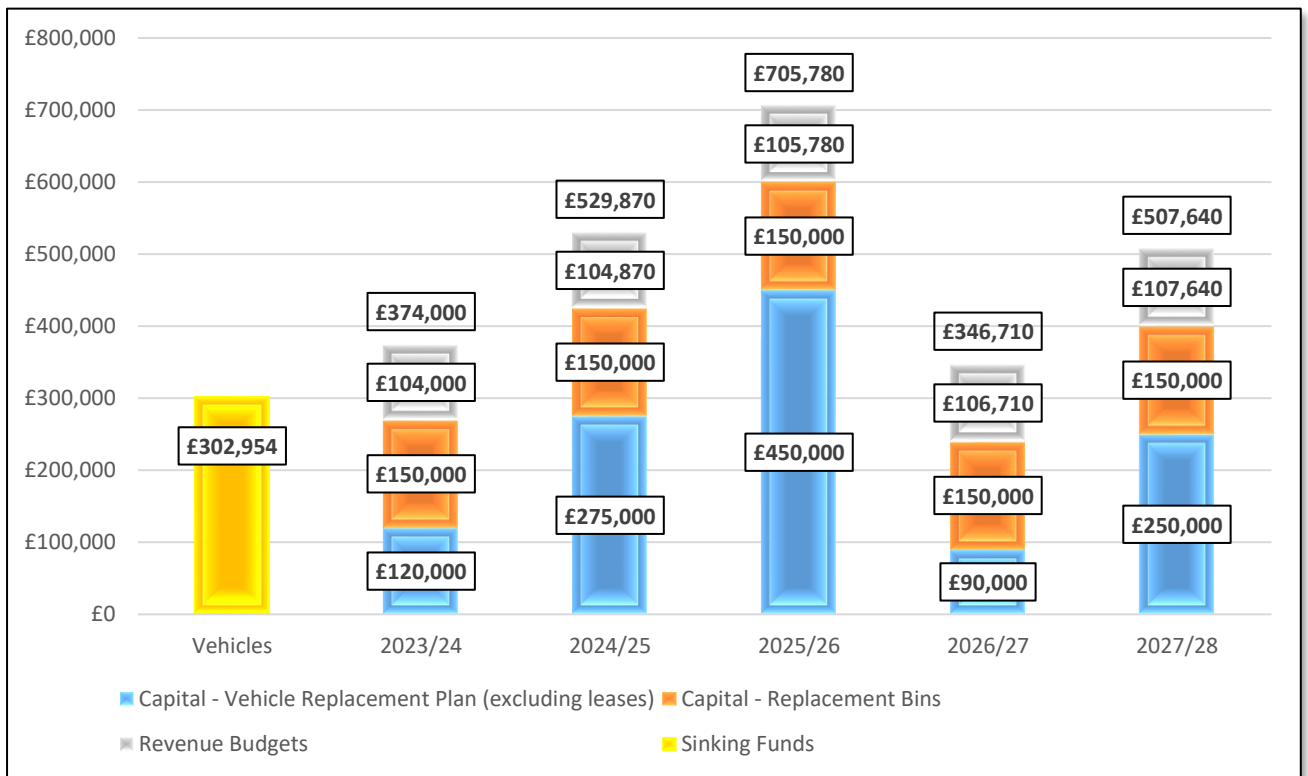
4.3. The resources identified for enhancement and maintenance of property assets are:



4.4. The Asset Management Plans in place for vehicles, plant and equipment assets are:



4.5. The resources identified for replacement and maintenance of vehicles, plant and equipment are:



4.6. There is also a proposed Capital Programme budget of **£6,000,000** in 2025/26 for a new fleet of waste vehicles assumed to be funded through a lease type arrangement.

5. Longer Term Capital Investment Planning

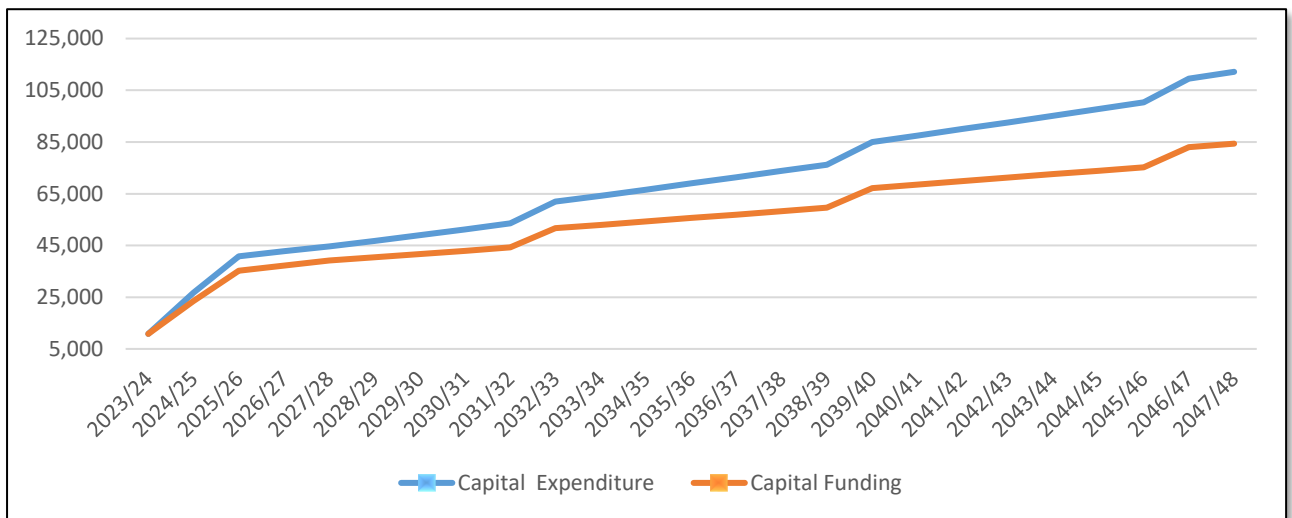
5.1. The Medium Term Financial Strategy covers a relatively short period of time (current financial year plus the next four years) and this short horizon is not reflective of the longer term investment needs associated with asset ownership.

5.2. Therefore, it is prudent to also produce financial plans that cover a longer term financial planning horizon such as 25 years.

5.3. The following key assumptions have been utilised in producing the longer term financial plan:

- Annual core inflation of **2%**.
- Population in Lichfield District increases by an annual average of **0.31%**.
- The proportion of the population aged 65 and over increases from **25%** in 2023/24 to **28%** by 2046/47.
- The value of building assets increases from **£34m** in 2022/23 to **£60m** in 2025/26 with the building of a new Leisure Centre and Cinema.
- An assessment of Property Planned Maintenance budgets at a percentage of building value or **£230,000** per annum has been utilised with annual inflationary increases.
- An assessment of ICT investment using the average level of investment in the last Capital Bid submitted of **£175,000** from 2025/26 has been utilised with annual inflationary increases.

5.4. The longer term capital investment plan in £000s is shown in detail at **ANNEX 1** and in the chart below:



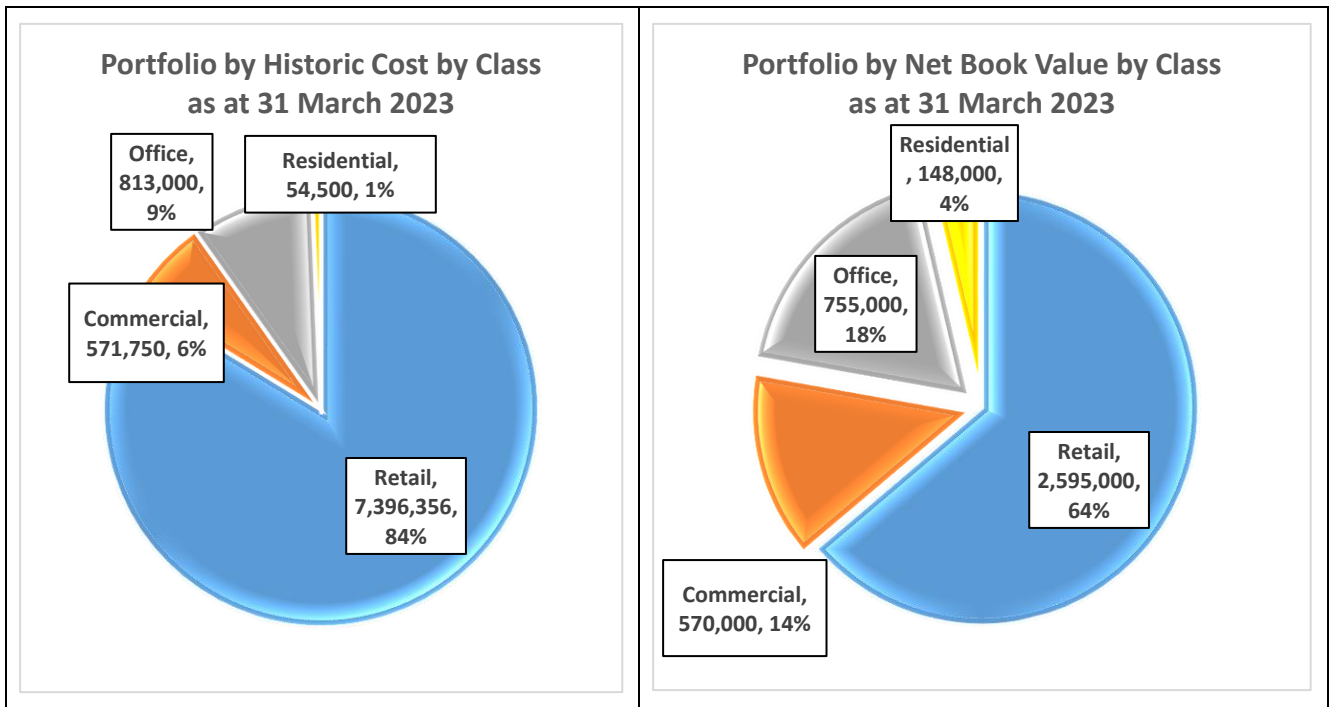
5.5. The difference between capital expenditure and funding would result in an increase in the cumulative level of borrowing need of **£28m** (including £5m approved for the new Leisure Centre and £0.5m approved for the Cinema for Lichfield District) that is projected to be **£12m** after Minimum Revenue Provision (MRP).

5.6. This additional borrowing need would result in additional and increasing capital financing costs in the revenue budget thereby further increasing the Funding Gap.

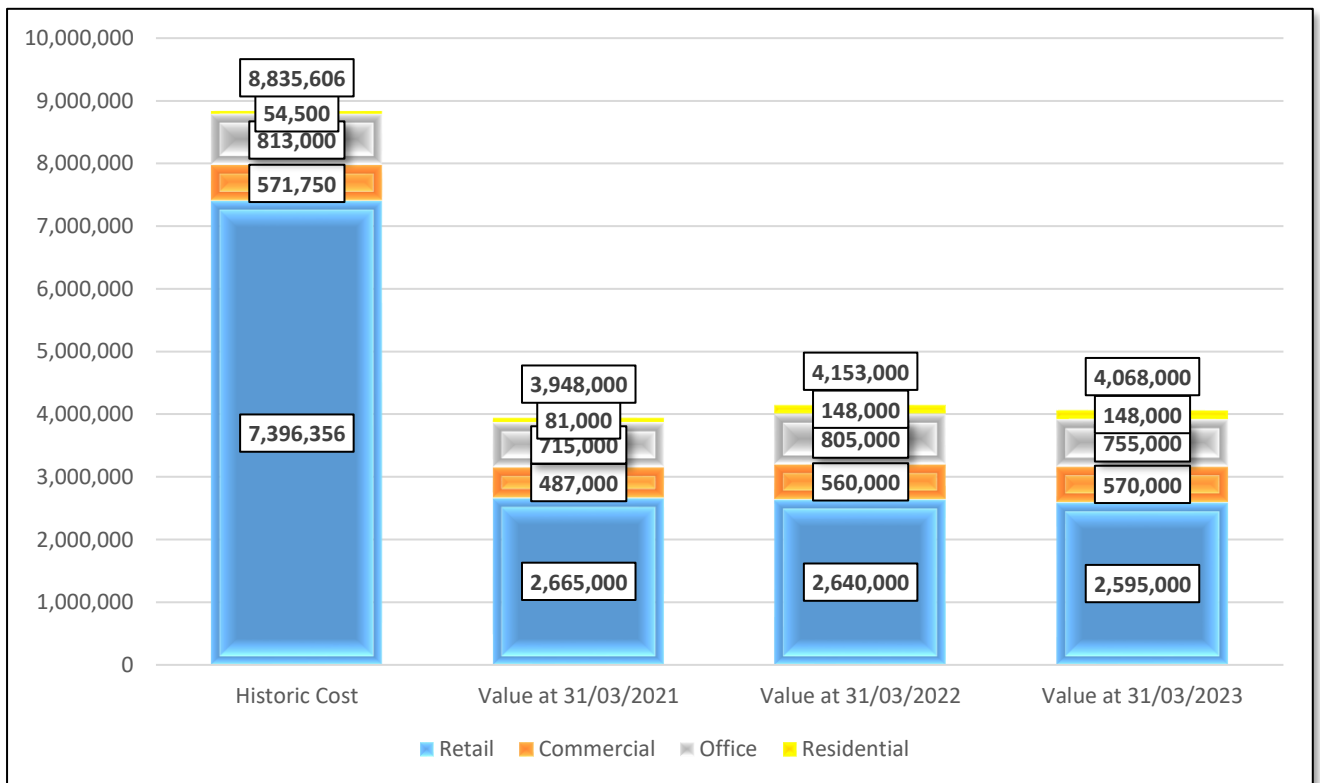
5.7. However, the borrowing need can be reduced through actions such as the receipt of external funding or sale of assets.

6. Current Investment in Property

6.1. The Council also owns a number of properties that provide an income return and the composition of the portfolio as at 31 March 2023 is shown below:



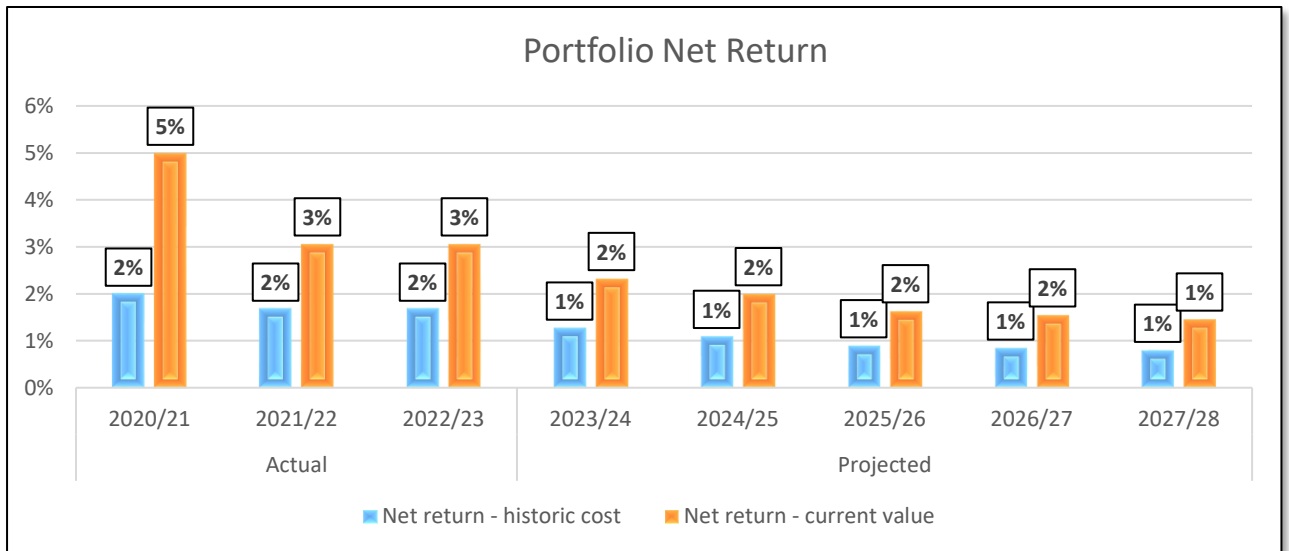
6.2. The value of these properties over the last three years is shown below:



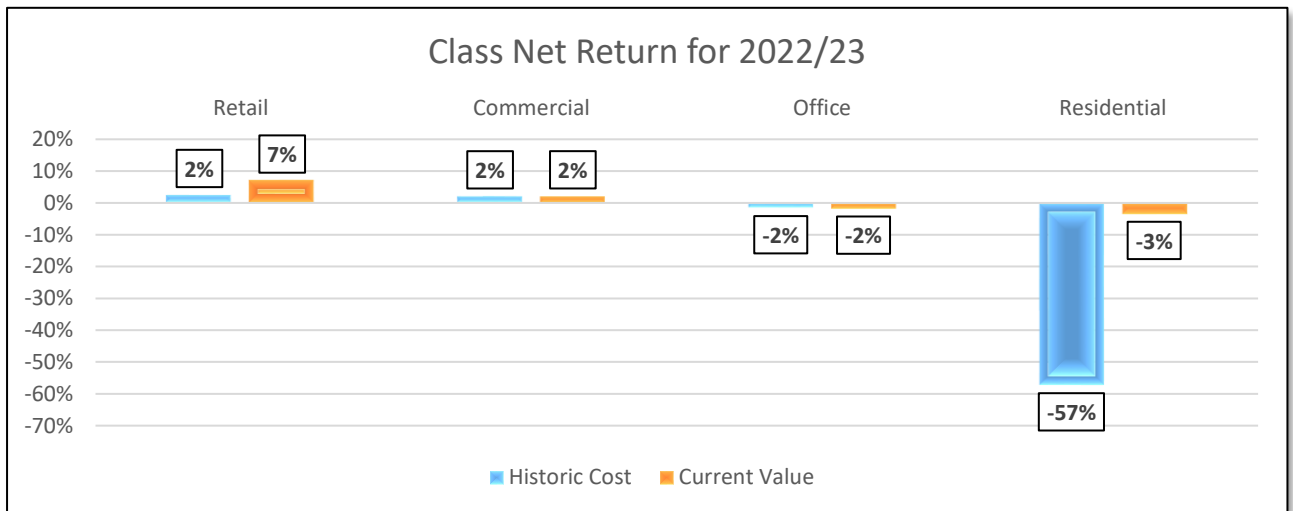
6.3. The value of these properties (mainly those classed as retail) have reduced because the value assessed by the external valuer is based on prevailing rental levels.

6.4. These properties were acquired without the need for borrowing and therefore the loan to value ratio for the portfolio is **0%**.

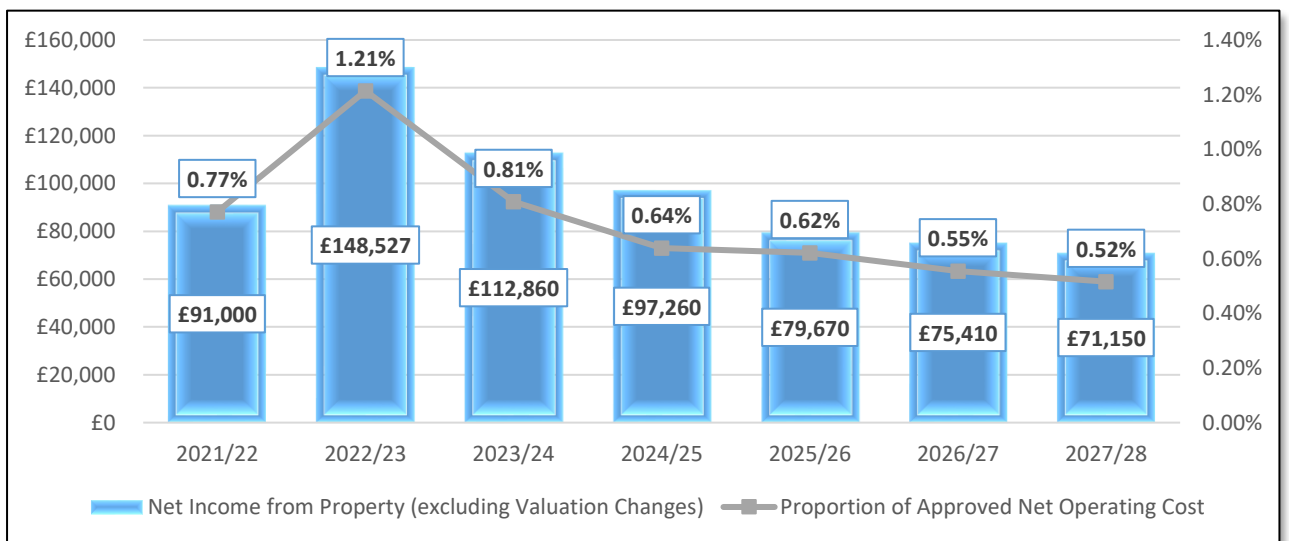
6.5. The portfolio net return based after taking account of management costs using historic asset cost and current value is shown in the chart below:



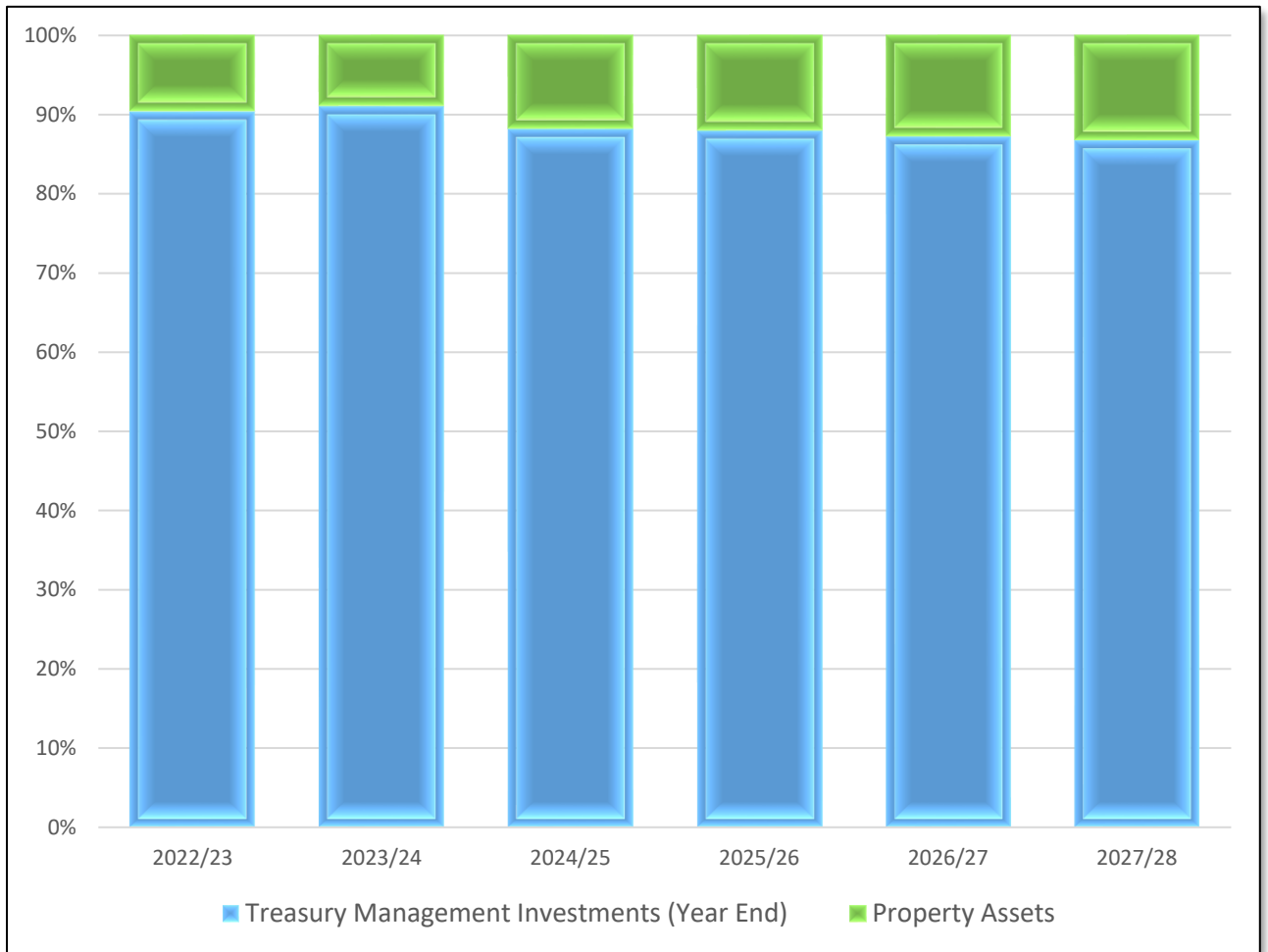
6.6. The net return is further analysed by class of investment within the portfolio:



6.7. The proportion of the Revenue Budget supported by income from these properties is shown below:



6.8. The ratio of Treasury Management investments to property asset investments is shown below:



6.9. The Council has a Local Authority Trading Company Lichfield West Midlands Trading Services (LWMTS) Limited, which was incorporated in September 2019 with an aim to support local services.

6.10. The Council undertook an equity investment of **£225,000** in 2020/21 to support local services.

6.11. In addition, Council has approved a capital loan of **£5,788,000** (including client contingency of £883,000) to the Joint Venture to deliver the Cinema development in Lichfield City. The accounting treatment of this capital investment will need to be considered as part of the 'Buy Out' considerations that will include the identification of the most appropriate ownership model.

7. Debt Management

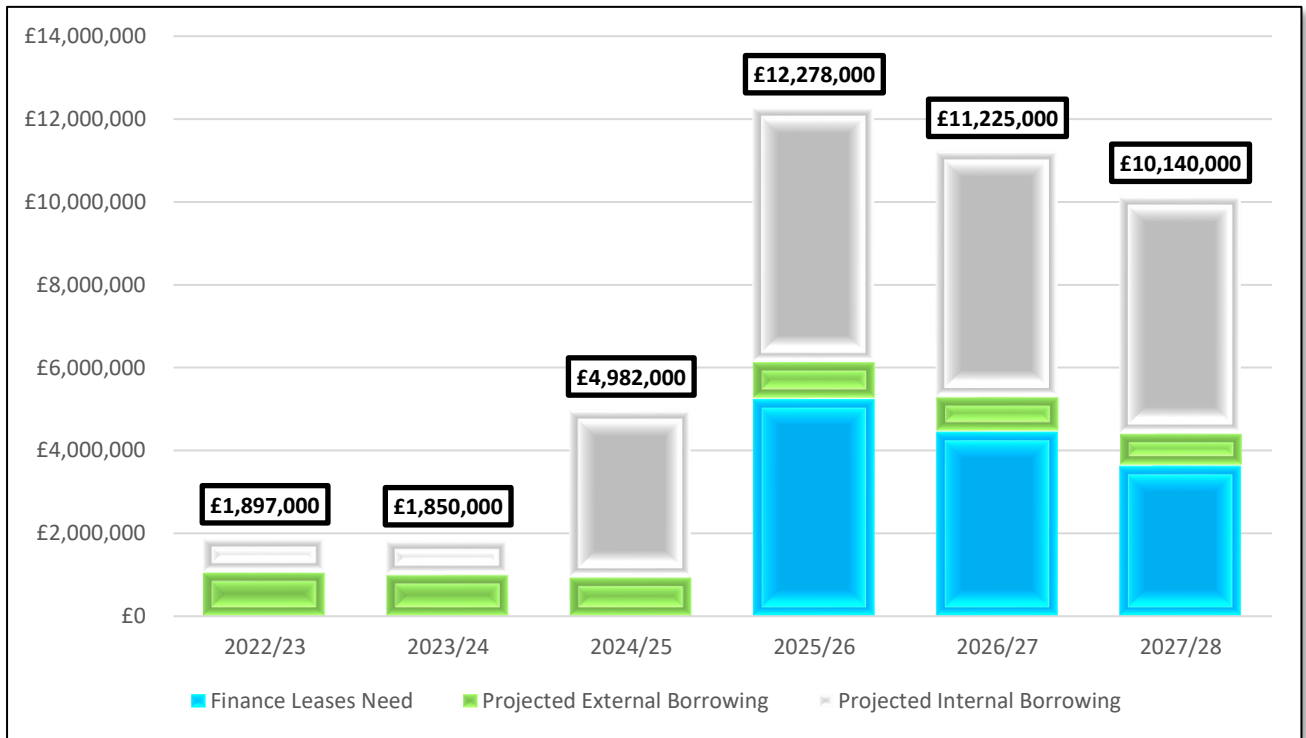
7.1. The Capital Programme is funded from a variety of sources. A number of these sources such as capital receipts, the revenue budget, grants, contributions, and reserves utilise resources that are immediately available or are receivable. However, when capital expenditure is approved, and these resources are not available, then a **Capital Financing Requirement (CFR)** or borrowing need results.

7.2. The CFR is managed through the approval by Council of the Medium Term Financial Strategy including the Capital Programme and Prudential Indicators.

7.3. The CFR must be financed through borrowing or leases (external debt) or by temporarily utilising internal resources (internal borrowing).

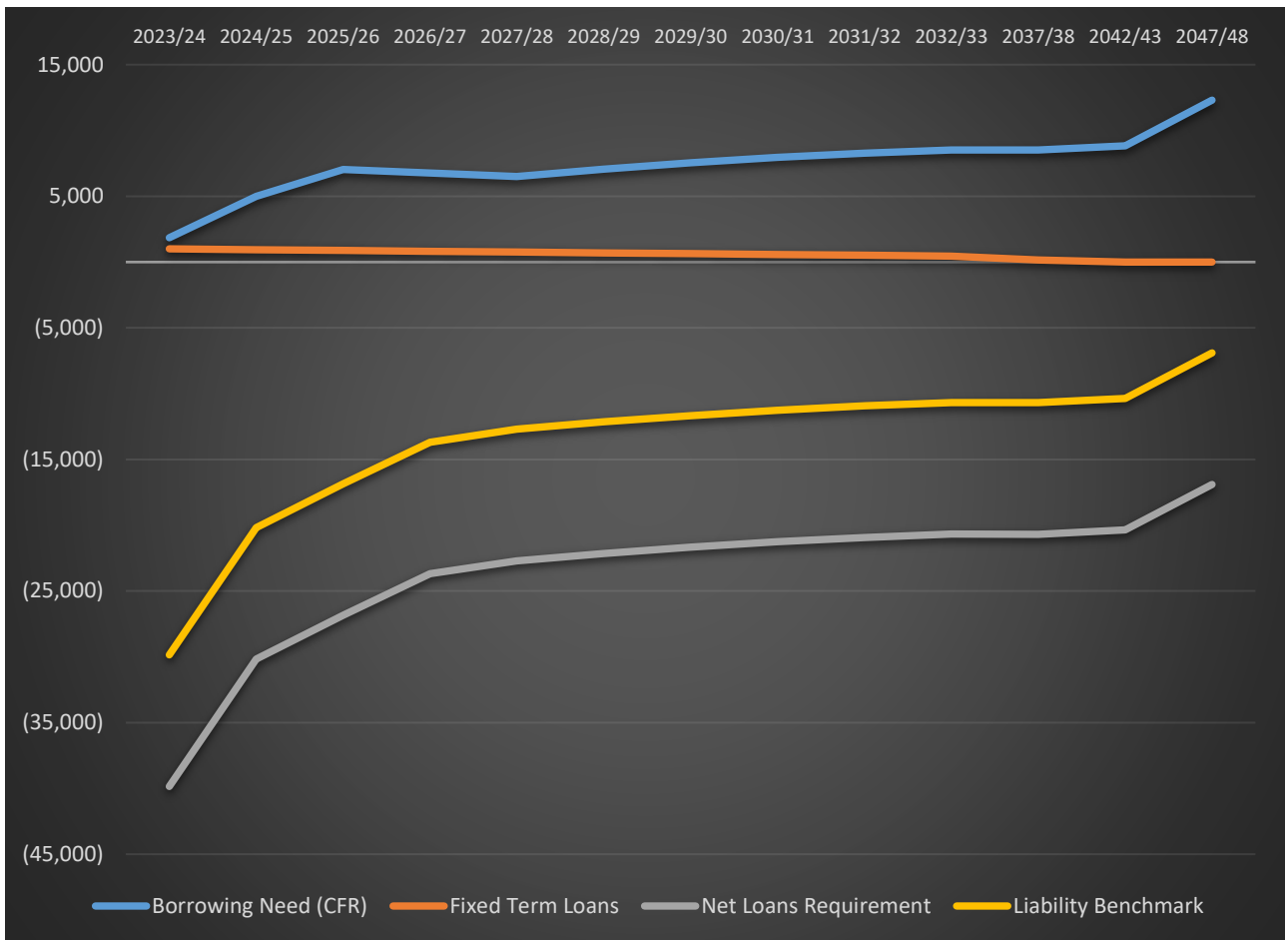
7.4. At 31 March 2023 the Council had a relatively low level of external debt outstanding of **£1,065,000**.

- 7.5. The new leisure centre, the Cinema for Lichfield District and the renewal of the waste fleet will mean the CFR is projected to increase to **£10,140,000** by 31 March 2028.
- 7.6. The new leisure centre and the Cinema for Lichfield District will initially be funded through Internal Borrowing and the waste fleet potentially through a contract hire type arrangement which is classified as external debt.
- 7.7. The projected CFR (the total for each column), **external debt** (leases and external borrowing) and **internal borrowing** is shown below:



- 7.8. The CFR is related to:
- Historic capital expenditure for the Chasewater Dam and Friary Outer Car Park.
 - Planned capital expenditure for the new Leisure Centre, the Cinema for Lichfield District and the renewal of the waste fleet funded by a lease type arrangement.
- 7.9. The Council manages its external debt through setting Prudential Indicators, related to the statutory maximum, known as the **Authorised Limit** and a lower warning level known as the **Operational Boundary**.
- 7.10. The external debt projections are based on the approved Capital Programme however to manage unforeseen events, an element of flexibility or ‘headroom’ is included in the Prudential Indicators:
- **Operational Boundary** – flexibility is included to enable internal borrowing to be converted to external debt or for example, to ensure accounting changes such as those proposed for all leases to be classed as finance leases, to be incorporated without breaching the limit.
 - **Authorised Limit** – this provides additional flexibility to manage unusual cash flows that necessitate temporary borrowing such as Government Grants not being paid.
- 7.11. The **liability benchmark** is the lowest risk level of external borrowing by keeping cash and investments to a minimum of **£10m** at each year end to maintain liquidity but minimise credit risk.

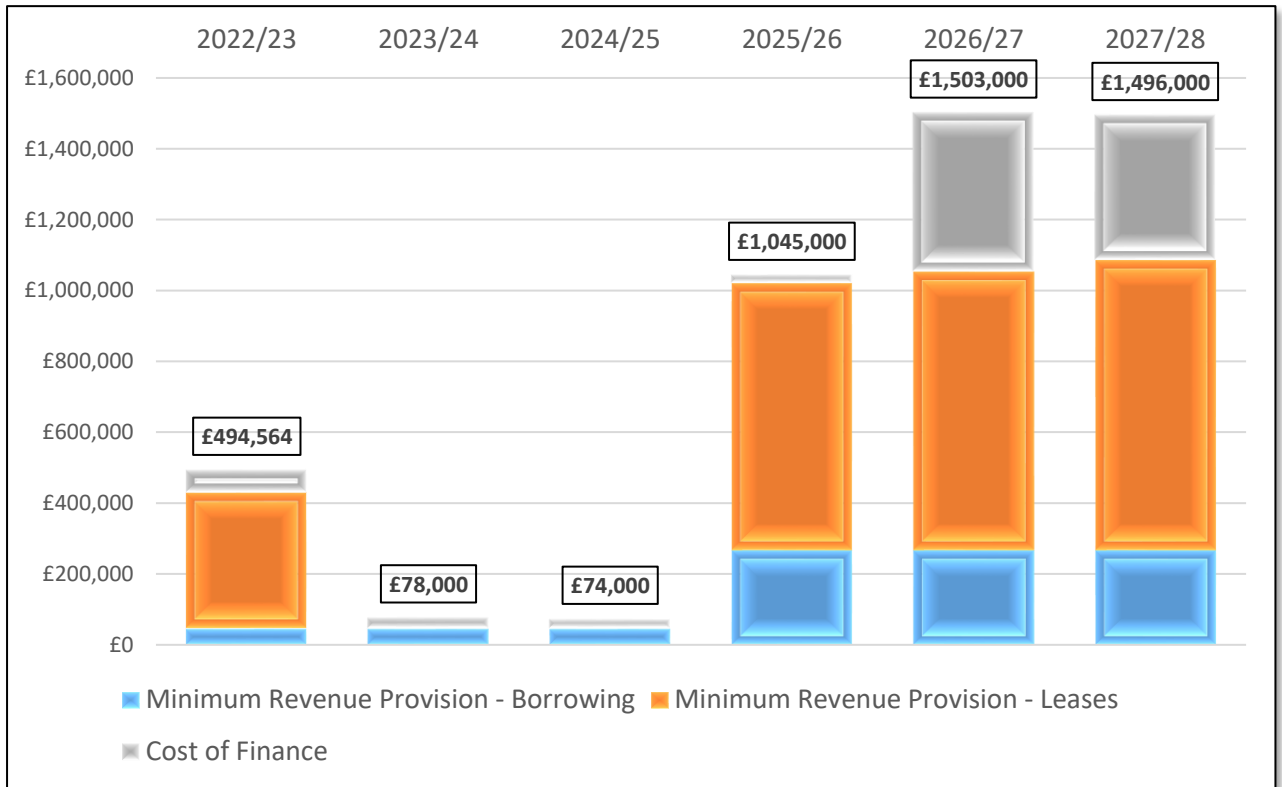
7.12. The projected level of borrowing, external borrowing, Net Loans Requirement together with the projected Liability Benchmark is shown below:



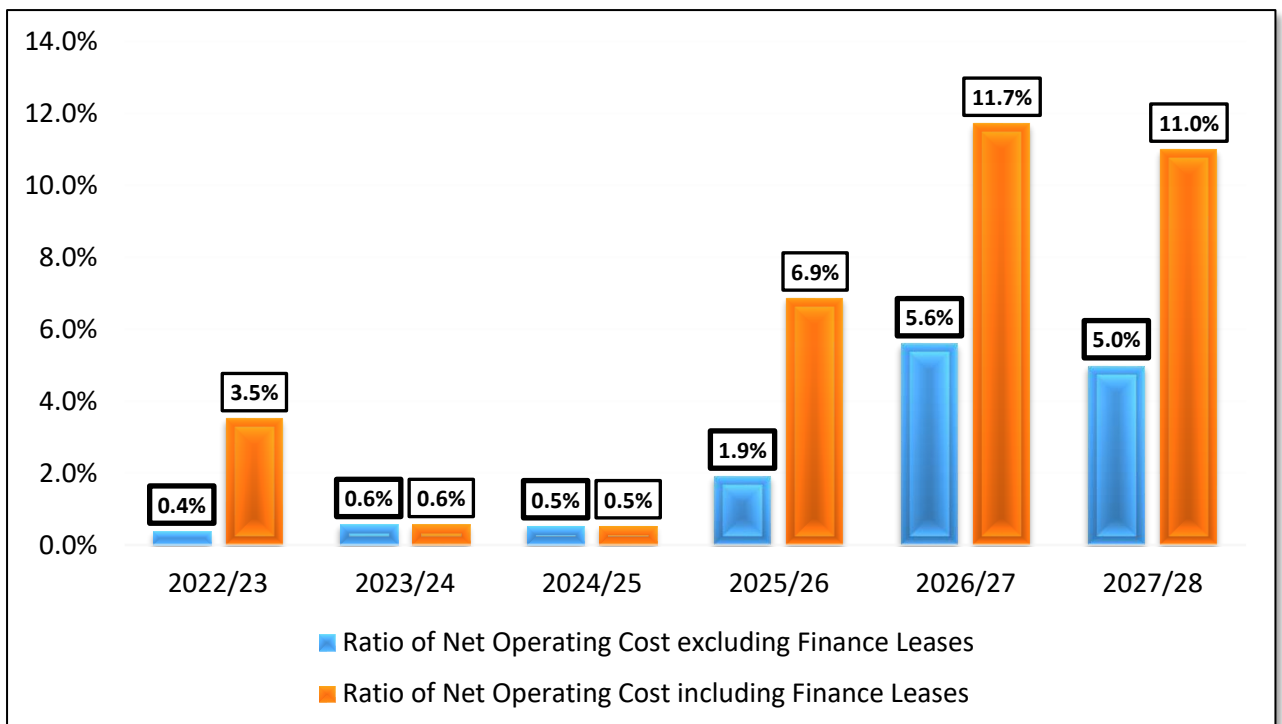
7.13. The chart above shows:

- **The projected level of borrowing need** (the blue line) – this is capital expenditure (excluding leases) that is not funded by available resources such as capital receipts, grants, and revenue.
- **The projected level of external borrowing** (the orange line).
- The difference between the blue and orange lines is the projected level of internal borrowing.
- **The Net Loans Requirement** (the grey line) – this is the Balance Sheet projection of cash resources.
- **The Liability Benchmark** (the yellow line) – this is the Net Loans Requirement less a minimum level of investments of £10m.
- When the Liability Benchmark is projected to become positive, it would be at this point that the replacement of internal borrowing by external borrowing would need to be considered.

7.14. The cost of debt servicing includes the cost of finance and Minimum Revenue Provision (MRP). Debt is only a temporary source of finance since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as MRP:



7.15. The proportion of the net budget allocated to financing costs is:



7.16. The Minimum Revenue Provision and therefore the financing costs ratio increases in 2025/26 due to the inclusion of the debt costs commencing at **£200,000** for the new leisure centre and **£19,800** for the cinema for Lichfield District.

8. Financial Guarantees

- 8.1. In addition to the debt projections shown above, in relation to external borrowing and leases, the Council can also act as a guarantor for an admitted body that delivers services on behalf of the Council.
- 8.2. In the event it is probable that these guarantees will be required a financial provision is created to mitigate the risk. Any guarantee is assessed throughout the year, in terms of the financial viability of the organisations for which the guarantee is provided, to determine whether a financial provision will need to be created.
- 8.3. The one guarantee previously identified in relation to Freedom Leisure is no longer required given management has been insourced to LWMTS from 1 April 2023.

9. The Authority's Risk Appetite, Knowledge and Skills

- 9.1. The Council's risk appetite, along with most of Local Government, is increasing due to the need to offset funding reductions from Central Government with income from alternative sources.
- 9.2. The Council employs professionally qualified and experienced staff in senior positions with responsibility for making capital expenditure, borrowing and investment decisions. For example, the Assistant Director - Finance and Commissioning is a qualified accountant with 30 years' experience, the Council uses the Property Team that forms part of the services provided by the Company to the Council to optimise the management of existing property. The Council pays for junior staff to study towards relevant professional qualifications including CIPFA and the Association of Accounting Technicians.
- 9.3. Where Council staff do not have the knowledge and skills required, use is made of external advisers and consultants that are specialists in their field. The Council currently employs Arlingclose Limited as treasury management advisers and has access to property professionals through LWMTS. This approach is more cost effective than employing such staff directly and ensures that the Council has access to knowledge and skills commensurate with its risk appetite.
- 9.4. The Council plans to utilise where appropriate the flexible use of capital receipts for transformation projects such as the Being a Better Council Programme.

10. Prudential and Local Indicators

- 10.1. The Prudential and Local Indicators in relation to the Capital Strategy are included in the Reports to Audit Committee and Cabinet prior to Council Approval.

11. Chief Finance Officer Assessment of the Capital Strategy

- 11.1. I have assessed the current overall risk as **25** out of **64** based on the following factors:

	Likelihood	Impact	2024/25	2023/24
Minimum			0	0
Slippage Occurs in the Capital Spend	4	2	8	8
Planned Capital Receipts are not received	2	2	4	4
The Capital Programme does include investment to realise all the Council's Strategic aims	3	3	9	9
Actual Cashflows differ from planned Cashflows	2	2	4	4
Assessed Level of Risk			25	25
Maximum			64	64

- 11.2. Therefore, I believe the level of risk is Tolerable (Green).

Capital Programme – 25 Year Model (1 to 10 years, 15 years, 20 years and 25 years)

Key Assumptions													
Year	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2037/38	2042/43	2047/48
	1	2	3	4	5	6	7	8	9	10	15	20	25
Population Projections	107,398	107,724	108,040	108,335	108,639	108,963	109,301	109,651	110,002	110,354	112,366	113,914	115,336
% Increase in Population		0.30%	0.29%	0.27%	0.28%	0.30%	0.31%	0.32%	0.32%	0.32%	0.37%	0.31%	0.31%
% of population 65 and over	25.57%	25.80%	26.09%	26.44%	26.69%	26.90%	27.14%	27.33%	27.49%	27.71%	27.83%	27.63%	27.63%
Projected Council Tax Base							43,705	44,024	44,343	44,662	46,257	47,852	49,447
Asset Values (£000)													
Buildings	41,931	54,443	59,574	58,912	58,249	58,249	58,249	58,249	58,249	58,249	58,249	58,249	58,249
Leisure Centre Cost above £5m													
Land	14,184	14,184	14,184	14,184	14,184								
Vehicles, Plant and Equipment	4,014	4,816	11,591	12,006	12,581								
Other Assumptions													
Core Budget Inflation Allowance						2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Asset Management Condition Allowance						0.39%							

Key Assumptions	Medium Term Financial Strategy					Additional Projections							
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2037/38	2042/43	2047/48
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Year	1	2	3	4	5	6	7	8	9	10	15	20	25
<u>New Assets</u>													
A Cinema for Lichfield District	2,888	2,836	3,999										
Replacement Leisure Centre	826	7,339	1,835										
Housing Investment		1,178											
New Coach Park	100												
32-44 Bakers Lane	1,582												
Sub Total	5,396	11,353	5,834	0	0	0	0	0	0	0	0	0	0
<u>Existing Property</u>													
Property Planned Maintenance	133	61	190	230	230	230	235	239	244	249	275	303	335
BRS - Short Term Redevelopment	268	802											
36a Bore Street	492												
Zip Wire Burntwood	30												
Burntwood Leisure Centre	473	300											
3G Pitch in Burntwood	200	200											
Beacon Park	161	300											
Chasetown Memorial Bowling Green	10												
District Council House	470	388											
Public Conveniences	121												

ANNEX 1

Sub Total	2,358	2,051	190	230	230	230	235	239	244	249	275	303	335
<u>Vehicles, Plant and Equipment</u>													
Bin Purchases/Dual Stream Recycling	181	150	150	150	150	150	151	152	153	154	160	165	171
Vehicles - Waste			6,000							6,120			
Vehicles - Other	120	275	450	90	250	237	242	247	252	257	283	313	345
ICT Investment	150	154	175	175	175	175	179	182	186	189	209	231	255
Building a Better Council	77												
Car Park Strategy	160	223											
Committee Audio-Visual Meeting Platform	85												
Sub Total	773	802	6,775	415	575	562	571	581	591	6,720	652	709	771
Other Capital Investment													
Disabled Facilities Grants	950	1,220	1,337	1,300	1,100	1,100	1,113	1,125	1,135	1,148	1,174	1,181	1,196
Other Projects	1,343	400				275	281	286	292	298	329	363	401
Sub Total	2,293	1,620	1,337	1,300	1,100	1,375	1,394	1,411	1,427	1,445	1,502	1,544	1,596
Total Modelled Expenditure	10,820	15,826	14,136	1,945	1,905	2,167	2,200	2,231	2,261	8,415	2,429	2,556	2,703

Key Assumptions	Medium Term Financial Strategy					Additional Projections							
	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33	2037/38	2042/43	2047/48
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
<u>Corporate Funding</u>													
Capital Receipts	(2,033)	(1,110)	(174)	(222)									
Capital Receipts - Right to Buy	(360)												
Revenue - Corporate	(173)	(100)	(565)	(183)									
<u>Other Funding</u>													
Disabled Facilities Grant - New	(950)	(1,109)	(1,109)	(1,109)	(1,100)	(1,100)	(1,113)	(1,125)	(1,135)	(1,148)	(1,174)	(1,181)	(1,196)
Disabled Facilities Grant - Existing		(111)	(228)	(191)									
Other Grants	(745)	(1,664)	(2,425)										
Section 106	(537)	(993)											
CIL	(1,350)	(800)											
Reserves	(4,509)	(6,610)	(1,169)	(90)	(655)								
Revenue - Existing Budgets	(163)	(150)	(150)	(150)	(150)	(150)	(151)	(152)	(153)	(154)	(160)	(165)	(171)
Leases			(6,000)			0	0	0	0	(6,120)	0	0	0
Total Modelled Funding	(10,820)	(12,647)	(11,820)	(1,945)	(1,905)	(1,250)	(1,264)	(1,277)	(1,288)	(7,422)	(1,333)	(1,347)	(1,367)
Annual Borrowing Need	0	3,179	2,316	0	0	917	935	954	973	993	1,096	1,210	1,336
Cumulative Annual Borrowing Need	0	3,179	5,495	5,495	5,495	6,412	7,347	8,301	9,275	10,267	15,536	21,353	27,776
Cumulative Borrowing Need (after MRP)	1,850	4,983	7,032	6,765	6,500	7,059	7,543	7,951	8,280	8,530	8,524	8,845	12,306